Coleman Franchise Rating

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Coleman Franchise Risk (CFR) Grade — 2.0 Methodology

SBA 7(a) Approvals 2018–2026 | Data as of March 31, 2026 | © 2026 Coleman Report

The Coleman Franchise Risk (CFR) grading system provides an accurate, easy-to-understand framework for assessing franchise loan performance. Using data obtained directly from the U.S. Small Business Administration's public database of every 7(a) loan issued, the CFR system evaluates the credit performance of 966 franchise brands with ten or more SBA loans approved from 2018 through the first quarter of 2026. The dataset is updated quarterly, ensuring the CFR system remains timely and relevant.

Franchisors cannot influence or alter the grade assigned to their brand. Grades are produced entirely by a fixed, published formula applied to government loan data. This impartial structure guarantees objectivity and strengthens the credibility of the CFR system.

1. What Is New in CFR 2.0

CFR 2.0 rebuilds the grading engine around three principles that the original system could not fully deliver:

- **Seasoned, dollar-weighted losses.** — Losses are measured in dollars as well as counts, and only on loan cohorts old enough to have demonstrated their true performance.
- **Volume is confidence, not a pillar.** — A brand's grade no longer defaults to the middle of the scale simply because it has a limited history. Statistical credibility weighting handles small books honestly.
- **An early-warning component.** — Loans that are delinquent, past due, in liquidation, or purchased by SBA but not yet charged off now pull a grade down one to two years before losses would otherwise appear.

The result is a grade distribution shaped like a bell curve rather than a single crowded category: every grade now carries real information for the underwriter.

2. Methodology

Every brand receives a CFR Score from 0 to 100, built from three components. Each component compares the brand's rate to the corresponding benchmark for the entire SBA 7(a) franchise portfolio, with the maximum penalty reached at four times the benchmark.

- **Seasoned dollar losses** (up to 45 points). Charge-off dollars as a percentage of gross approved dollars, measured on 2018–2023 approval cohorts only. Portfolio benchmark: 0.98%.

- **Seasoned charge-off frequency** (up to 25 points). Charged-off loans as a percentage of loan count, on the same 2018–2023 cohorts—portfolio benchmark: 3.75%.
- **Current stress — early warning** (up to 30 points). Loans currently delinquent, past due, in liquidation, or purchased but not yet charged off, are measured across the full 2018–2026 book—portfolio benchmark: 7.39%.

Credibility weighting. Before scoring, each brand's rates are blended with the portfolio benchmark according to the weight n ÷ (n + 20), where n is the brand's loan count in the relevant window. A brand with 200 seasoned loans is judged almost entirely on its own record; a brand with a dozen loans is pulled substantially toward the portfolio average. This prevents a single loss from destroying a small brand's grade — and equally prevents a small, unproven brand from claiming an elite grade it has not yet earned.

The AAA gate. Regardless of score, a brand must show zero charge-offs on its 2018–2023 cohorts to receive an AAA grade. AAA continues to mean what it has always meant: a perfect seasoned repayment record.

Grade cutoffs are fixed. Score thresholds were calibrated once against the March 31, 2026 portfolio and are now frozen. A brand's grade changes only when its own performance changes — never because other brands improved or deteriorated.

3. Portfolio Distribution (8-Grade Scale)

Grade	Franchises	% Rated	Definition
AAA	21	2.2%	Elite franchises with a flawless seasoned repayment record and deep lending history. AAA requires zero charge-offs on 2018–2023 cohorts — no exceptions. These systems represent the safest franchise lending opportunities in the SBA portfolio.
AA	76	7.9%	Strong franchises with minimal seasoned losses and low current stress. Highly reliable lending candidates that fall just short of the AAA standard.
A	99	10.2%	Established brands are performing better than the portfolio benchmark on every measure. Manageable credit risk and a solid foundation for expanded lending.
BB	144	14.9%	Above-average performers with solid records and modest losses, or clean books that have not yet built the volume to earn a top grade. Attractive with periodic monitoring.
B	288	29.8%	Acceptable borrowers performing near the portfolio benchmark. Standard underwriting care applies; these brands are the core of the financeable franchise sector.
C	193	20.0%	Below-benchmark performance — elevated losses or current stress. Case-by-case underwriting is required to avoid elevated default risk.
D	96	9.9%	Materially concerning performance histories with significant losses relative to volume. Lending should be rare and only with extraordinary risk mitigants.
F	49	5.1%	Effectively unfinanceable. Catastrophic credit performance with an extremely high risk of default. Exclude from lending consideration.

Key insights

- Top-rated systems (AAA, AA, A) represent 20.3% of rated franchises — rare enough to be meaningful, common enough to give lenders a genuine pipeline of premium brands.

- Half of all rated brands (BB and B) occupy the financeable middle of the market, where standard underwriting discipline applies.
- 35% of brands fall into C, D, and F — the categories requiring heightened caution or outright avoidance, with D and F alone accounting for 15% of rated systems.

4. Risk Assessment Framework

The CFR grading system translates complex loan performance data into a clear framework for underwriting decisions. Top-rated brands (AAA–A) may support expanded lending opportunities. Mid-tier brands (BB and B) merit careful monitoring and standard risk controls. Lower-rated brands (C, D, and F) signal substantial credit concerns and should be approached with extreme caution or avoided altogether. Because CFR 2.0 incorporates current stress, a declining grade is frequently the earliest public signal that a brand's portfolio is deteriorating.

5. Purpose and Use of the Report

The purpose of this report is to provide credit underwriters with an impartial, data-driven tool that aids in risk assessment. By consolidating the loan performance of nearly one thousand franchise systems into a single, easily interpreted grading scale — refreshed quarterly — the CFR system helps lenders identify both lending opportunities and potential risk exposures before they appear on a balance sheet.